



**Director of  
Central  
Intelligence**

**Top Secret**



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## **National Intelligence Daily (Cable)**

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UK-ARGENTINA: Quickening Diplomatic Activity

*//Diplomatic activity increased yesterday as persistent media reports of significant combat proved false. Both sides appeared more receptive to diplomatic initiatives aimed at a cease-fire. US relations with the hemisphere are approaching a critical juncture, as Venezuela surfaced proposals to revise the Rio Treaty and revamp the OAS to exclude Washington.//* [redacted]

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*//British Defense Ministry officials have announced that casualties on the HMS Sheffield total 87, including 20 to 30 dead. The destroyer reportedly was scuttled yesterday.//* [redacted]

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Comment: The bulk of the Argentine task force presumably remains close to the mainland near Puerto Madryn, under the protection of land-based air cover. [redacted]

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Peace Proposals

*//The increased military activity in the Falklands through Tuesday prompted a new flurry of diplomatic activity. The UN Security Council yesterday delayed a decision to call for a cease-fire to await responses from the British and Argentines on the UN peace plan.//* [redacted]

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*//Peruvian representatives continue to push their peace proposals* [redacted]

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Comment: //London appears anxious for progress on the basis of the Peruvian proposals, or at least for a public demonstration that Argentina takes responsibility for rejecting them. The British will want a prompt response from Buenos Aires, and any evidence of deliberate Argentine delay will probably bring about new British military measures.//

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//Prime Minister Thatcher, moreover, cannot accept any plan that guarantees Argentine sovereignty in advance. The most difficult aspect of the new proposals for Thatcher to sell to the Tory right wing is an interim authority that does not include British participation. The Prime Minister can accept such an arrangement only if the Falklanders are given a strong voice in the final disposition of the islands.//

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//Argentina, too, may be more amenable to cease-fire negotiations. The destruction of the Sheffield by navy planes has probably allowed the hawkish naval commander to salvage some of the honor he lost in previous sea encounters with the British. The Argentines, however, appear to be seeking a UN mandated cease-fire prior to negotiations.//

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//Argentina would probably be on the defensive in a Security Council meeting. It lacks the affirmative votes to pass a resolution one-sided enough to force a British

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veto, and any attempt to go beyond Security Council Resolution 502 will be met by British insistence on language demanding a return to the situation before the Argentine takeover of the Falklands.//

#### EC Reactions

//No other EC member has followed Ireland's call for an end to sanctions against Argentina and its declaration of neutrality. Most members, however, are wavering in their support for a renewal of sanctions and are calling for an end to hostilities.//

//The French Cabinet has called on both nations to end the fighting and accept Resolution 502. Denmark, which reluctantly went along with sanctions, is now more open in its criticism of the UK,

Italy has been trying to moderate the EC position on sanctions and has criticized British military actions.//

Comment: The unanticipated severity and quick onset of military action probably are responsible for most of the slippage in EC support for the UK. Many EC countries also fear a loss in trade and financial ties with Latin America if the crisis deepens. For many in the EC, Latin America represents a market that they are hesitant to lose at a time when domestic unemployment is high and economic recovery questionable.//

#### Argentine Devaluation

Buenos Aires has devalued the peso by 17 percent. At the same time, the government announced an increase in export taxes.

Comment: The peso recently has been trading in the black market at 40 percent over the official rate. The devaluation represents an attempt to close the gap and stem capital flight. The increased export tax will provide a stopgap measure to shore up international reserves and provide new revenues to cover military purchases.

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#### Venezuelan-US Relations

//Bipartisan support in Caracas is growing for a Venezuelan initiative to organize a meeting of Latin American Foreign Ministers to consider revising the Rio Treaty and creating a new OAS that would exclude the US. Although President Herrera claims that the decision to purchase F-16s still stands, political leaders are warning that the Falklands crisis could damage US-Venezuelan relations.//

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Comment: //Even those Venezuelans who traditionally have supported the US now believe that the "special relationship" between Caracas and Washington is open to question. The Falklands crisis has given renewed impetus to Foreign Minister Zambrano's proposal of two years ago that major Latin nations forge a multilateral alliance to discuss common economic and political problems and deal on a united basis with Washington. President Herrera, whose popularity has risen because of his hawkish stance on the Falklands, supports Zambrano's initiative.

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EGYPT - ARAB STATES: More Initiatives

*President Mubarak is scheduled to meet in the next week with several senior Arab officials to consider ways to improve Egypt's ties with moderate Arab countries.* [redacted]

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Mubarak is to visit Khartoum today for talks with President Nimeiri. The Sudanese leader recently suggested publicly that Egypt attend an Arab summit conference to discuss regional problems. [redacted]

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//Omani Sultan Qaboos arrives in Cairo on Saturday.

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The Egyptian press reports that Moroccan Foreign Minister Boucetta will visit Egypt next week. Such a visit would be the first by a Moroccan official since Egypt signed the peace treaty with Israel in 1979. [redacted]

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//The Moroccans reportedly are consulting other moderates about inviting Egypt to an Arab summit this summer. Morocco appears to be backing away, however, from earlier promises to resume diplomatic ties with Egypt this month.// [redacted]

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The moderate states have taken several symbolic steps toward a reconciliation--Morocco and Jordan publicly congratulated Mubarak on the Israeli evacuation of the Sinai--but they are reluctant to move too rapidly toward a full rapprochement. They do not want to suggest any change in their opposition to the Camp David process and the autonomy negotiations. [redacted]

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Comment: Morocco's initiative could bog down because of continuing differences over Saudi Arabia's controversial peace plan, which Syria and the PLO rejected at the summit last November. Arab militants led by Syria will resist any effort to invite Egypt. [redacted]

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NAMIBIA: Frontline States Support SWAPO

*The Frontline States are supporting the rejection by the South-West Africa People's Organization of the Western Contact Group's proposals on the electoral system for Namibia.* [redacted]

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In addition to endorsing SWAPO's position, the Frontline States on Tuesday expressed deep disenchantment with the Contact Group's three-phase approach to settlement talks. They also did not oppose SWAPO's call for a UN-sponsored conference that would entail direct talks between SWAPO and South Africa and its Namibian allies.

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Comment: Despite its support of SWAPO, the Frontline States in effect have softened SWAPO's position on the all-parties conference by stating that other negotiating forums are possible. The Frontline States also left further room for negotiation by noting that SWAPO would accept either proportional representation or single-member constituency election procedures--an invitation to the Contact Group to go back to South Africa on this issue. [redacted]

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The action of the Frontline States nonetheless reflects their increasing pessimism about the prospects for a negotiated settlement. SWAPO has always charged a pro - South African bias on the part of the Contact Group, and it apparently was encouraged by the USSR to reject the Western proposal. [redacted]

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Pretoria maintains that it accepted the Contact Group's proposal for a combined voting system as a single package. It probably will continue to resist reconsideration of the package, claiming that this would endanger the fragile consensus within the South African Government. [redacted]

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ITALY: New Christian Democratic Secretary

*Ciraco DeMita's election as Christian Democratic Party secretary may signal an early end to the Spadolini government and holds open the possibility of improved relations between the Christian Democrats and the Communists.* [redacted]

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DeMita, who has been a member of parliament since 1963, has held several ministerial portfolios. He is one of the party's most insistent advocates of a leftist policy. Although he does not favor bringing the Communists into the government in the immediate future, he has long held that their support should be used to solve the country's problems. [redacted]

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Comment: Despite his long tenure as a Christian Democratic activist, DeMita is a new face at the highest levels of the party. His advocacy of reform may encourage those members who have looked to the congress to begin the process of party renewal. [redacted]

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DeMita's election, however, is almost certain to elicit a negative response from Socialist Party leader Craxi, who will see the resurgence of the Christian Democratic left as a threat to his personal ambitions to become Prime Minister and a sign that relations between his party and the Christian Democrats will remain uneasy. If Craxi is convinced that the situation is not likely to improve and that the Christian Democrats, under DeMita, are prepared to edge closer to the Communists, he probably will move next week against the Spadolini government with an eye to initiating national elections in the fall. [redacted]

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The Communists will see DeMita's election as a promising development but they will react cautiously. The "historic compromise" continues to have special attractiveness for party leader Berlinguer, and he is almost certain to instruct his lieutenants to put out secret feelers to the new Christian Democratic leadership. [redacted]

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POLAND: Appeal by the Church

After conferring for two days, Polish bishops yesterday condemned the violent demonstrations, called for the release of internees, and indirectly urged that talks be renewed between the government and Solidarity. They later met privately with Kazimierz Barcikowski, the senior Party official responsible for Church affairs. Meanwhile, the authorities acknowledged that at least seven cities again are under curfew at night. [redacted]

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Comment: The bishops probably reiterated to Barcikowski the Church's position that a dialogue between the regime and the people is the only way to resolve the crisis. The authorities may have reiterated their argument that national recovery cannot occur without public order and discipline. [redacted]

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MEXICO: Negotiations To Avoid Default

Representatives from over 130 Western banks are trying to reschedule the \$2.3 billion debt owed by Mexico's largest private firm, Grupo Industrial Alfa. Last month the company suspended payments on the principal, most of it owed to US banks. Alfa's longer-term financial problems have been aggravated by the recent devaluation of the peso and by large wage increases ordered by the government. [redacted]

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Comment: A default by the firm would seriously damage Mexico's credit rating and might disrupt the government's plans to secure new loans. Although the Mexican Government saved Alfa from default last year by providing an emergency loan, it now wants the company to seek help from its creditors because it cannot aid business while it cuts public-sector spending, the key to its new austerity program. [redacted]

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EL SALVADOR: Military Sweep Terminates

//The government's 3,000-man counterinsurgency sweep in northern Morazan--the first operation there since December--reportedly is ending after having preempted a possible guerrilla offensive, but its impact on future insurgent activities in the area is questionable. As of Monday, government casualties totaled 30 killed and 50 wounded, with guerrilla losses unknown. Logistic and communication problems among Army units compounded the difficulties inherent in attacking heavily fortified mountain strongholds defended by well-armed and trained insurgents.//

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Comment: The recent concentration of guerrilla forces in the northeastern zone and the expectation that they will increase activities is likely to require another offensive in the near future.

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TAIWAN: Defense Modernization Efforts

//Taiwan has announced that it will encourage cooperation between the civilian technical and scientific community and the military community--a rare occurrence in the past except in nuclear programs. The joint efforts will concentrate on electronics, computers, material sciences, and information processing. Taiwan also is trying to obtain foreign technologies from smaller companies in the US, Japan, Israel, and Western Europe.//

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Comment: //Taipei's ability to buy large quantities of military equipment freely may be limited in the future, and it is anxious to strengthen its own scientific and technological capabilities to help modernize its defense forces. The efforts to acquire foreign technologies, particularly in electronics and computers, apparently are well funded and probably will succeed. The use of smaller firms is designed to minimize publicity, which they fear would cause Beijing to interfere.//

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SPECIAL ANALYSIS

NICARAGUA: Increased Sandinista Repression

*A growing insurgency and the fear of threats from the US and neighboring countries are giving the Sandinistas new justification to consolidate their control and bear down on domestic opponents. Many moderate opposition leaders are going into exile, some to join forces with revolutionary hero Eden Pastora. Those who remain may be tolerated in order to retain a semblance of democracy, but they will be suppressed quickly if they resist government authority.*

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//The Sandinistas are convinced that the US is determined to topple their regime.// Their siege mentality--developed during the long struggle against Somoza--has been reinforced in recent months by their perception of renewed US efforts to check leftist forces in Central America. The Sandinistas regard recent diplomatic pressures against Nicaragua, increasing activity by foreign-based opponents, the failure of the left to gain power in El Salvador, and US military aid to Honduras, as evidence of Washington's conspiracy against them.

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To retain access to Western economic and financial aid, the regime had preferred to move gradually toward establishing a Marxist-Leninist state. The increase in internal and external pressures, however, has propelled it toward greater repression and mass mobilization of the population.

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The State of Emergency

Since the suspension of most civil liberties in March, the regime has halted virtually all opposition political activity and has used the crisis atmosphere to stir up antagonism toward the US. Several opposition party and labor union members have been arrested, and some leaders have been denied permission to leave the country. Recent decrees allow the regime to impose "war taxes" and to extend government control over the economy.

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The imposition of prior censorship and the banning of nonofficial radio newscasts have given the Sandinistas almost total control over the media. Editors of the prestigious independent newspaper *La Prensa* have been so intimidated by numerous government-ordered shutdowns that they frequently do not publish items likely to anger the regime. [REDACTED]

Neighborhood committees--patterned on the Cuban model--have been instructed to increase vigilance and report "counterrevolutionary" activities. Militia recruitment drives have accelerated, and harsh measures are being used to coerce or punish those who resist recruitment. [REDACTED]

Through a combination of pressure and patriotic appeals, the Sandinistas have succeeded in increasing discipline in the labor force--a major accomplishment after strikes, absenteeism, and work stoppages became almost endemic last year. Appeals to revolutionary fervor and nationalism apparently have strengthened the dedication and discipline of the Sandinista rank-and-file in the government, armed forces, and mass organizations. [REDACTED]

#### The Challenge From Pastora

Soon after Pastora's denunciation of the Sandinistas last month, regime leaders launched a campaign to discredit him. To dispel any hopes about the existence of a pro-Pastora clique within Sandinista ranks, several former guerrillas who had fought under Pastora publicly repudiated his action and accused him of selling out to "US imperialism." [REDACTED]

Army Chief of Staff Cuadra--widely considered a moderate--called Pastora a traitor and made a thinly veiled threat against his life. Managua also sent a high-level delegation to warn San Jose against allowing Pastora and his followers to use Costa Rican territory as a base for raids against Nicaragua. [REDACTED]

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### The Democratic Opposition

Pastora's speech has had its greatest impact so far on the democratic opposition. Moderate leaders have become increasingly nervous, fearing that a serious challenge from Pastora would lead to an even stronger crackdown on independent groups. [REDACTED]

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Former junta member Alfonso Robelo, Social Christian Party leader Adan Fletes, and other key moderates have given up and gone into exile with some of their followers. Robelo reportedly will soon declare support for Pastora. [REDACTED]

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Other moderates are making preparations to flee the country or go into hiding. Those who remain probably will try to disassociate themselves from the exiles. [REDACTED]

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The forces behind the new repression are likely to grow. A serious military challenge by Pastora or others would lead to further suppression of opposition elements throughout Nicaragua. [REDACTED]

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